Aid: is it worth it?

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Aid worldwide runs at more than $120 billion per year (World Bank 2011a), yet there is very little correlation between this expenditure and the often stated goal of poverty reduction. The failures f aid are legion. Yet this 'development assistance' has become a massive and semi-permanent global industry which in western countries is often erroneously equated with 'development'. Nothing could be further from the truth. Aid programs, despite the stated good intentions, certainly deserve some critical scrutiny.

The most important problem with aid is that it undermines processes of self-determination and democratic development in developing countries which are, for the most part, former colonies of the current aid 'donors'. What sort of independence have they gained if, after decolonisation, they remain beggars before their former colonial masters? Whatever might be said about the practical benefits of any particular aid program, one thing is certain: there will be no democratic accountability. The donor countries may pretend to 'consult' with local peoples, but they will never be held accountable by them. On the contrary, aid programs will always answer to the 'national interest' (commercial and strategic) of their home countries. For the 'recipients', the longer aid programs persist, the more serious is this undermining of democracy and disempowerment of their own citizens.

The more frequently cited - but second order - problems of aid (obligation, debt and policy leverage; corruption and aid elites; and aid trauma) also deserve scrutiny. Some of them are consequences of the first order problem. Only after full scrutiny of these problems is it be possible to properly consider what role, if any, aid might play in the nation building of a sovereign people.

This paper sets out some initial myths and dilemmas of aid, before briefly but systematically addressing these key problems. It then seeks to characterise the most harmful forms of aid, as well as the potentially useful forms, and from there formulate some regulatory criteria that might assist in determining a sovereign response.

1. Some initial myths

Influenced by the promotional arms of aid agencies, and encouraged by the small elite groups that benefit from cashed-up aid programs, many myths flourish. The first is the idea that aid 'transfers resources'; that is, one million dollars in aid means one million dollars going to people in need. The more the better, therefore 'increasing aid flows' is foundational to development and general welfare, say some influential advisers (e.g. Sachs 2001). The new resource 'pool' is said to be able to deliver essential services and training, build infrastructure and create employment, steps towards capacity building and poverty reduction.

However most aid 'boomerangs', or returns to the 'donor', in the form of salaries for highly paid foreign workers and profits for foreign companies which have the inside running on lucrative aid

contracts. For example, in Australia's 2003-04 country aid budget for Papua New Guinea, six companies were awarded 23 contracts totalling A$504 million, or 65% of that country budget (Aid/Watch 2005). In neighbouring Timor Leste the La'o Hamutuk group estimated that, of the more than $5.2 billion in total aid moneys allocated to Timor Leste between 1999 and 2009, only $552 million or 10.6% actually entered the Timorese economy (La'o Hamutuk 2009). That represented a 90% 'boomerang'; that is, a massive return of aid to the 'donor' countries. This process keeps aid programs popular amongst corporate elites, who otherwise complain about taxation and public spending at home.

Nevertheless, AusAID has defended itself against 'boomerang aid' accusations, saying:

> '"Boomerang aid" is a simplistic concept that alleges aid benefits [to Australian companies and individuals] … to the exclusion of companies and individuals in developing countries … [however] the longer-term benefits including those that flow to local businesses and industry are not taken into account … around one third of [AusAID in PNG] expenditure was made through local firms with an additional 40 per cent made through in-country agencies.' (AusAID 2005: 8)

In other words, there may be longer term benefits (e.g. training, business opportunities) from the Australian operations and at least 'one third' went to local firms. However the 'aid boomerang' can be much larger, while the 'spin off' benefits mostly accrue to small privileged groups. For example, the ill-fated 'Enhanced Cooperation Program' for Papua New Guinea was to be a five year long, Australian Federal Police–led operation, headlined with A$790 million. Of this, more than 92% was dedicated to AFP salaries, accommodation, logistics and operational costs (Aid/Watch 2005). A fair deal of this money was indeed spent on vehicles and rented apartments in the capital – representing benefits to a few wealthy locals – but the program did not go ahead because proposed privileges (legal immunities) for the Australian police were successfully challenged in court (Skehan 2005).

The waste on foreign advisers, in the name of 'capacity building' is now well recognised. Australia's aid agency recently acknowledged some of these problems:

> 'Currently, none of Australia's programs has formal systems for monitoring and reporting on adviser performance. There is a growing discussion among donors in East Timor about the scope of capacity building and whether it has been too tied to the adviser model' (AusAID 2008: 33-34).

Highly paid advisers contribute to enormously unequal, apartheid-like 'bubble economies' economies (Sogge 2009), which are unstable and generate resentment and violent crime (Braithwaite 1979; Fajnzlber, Lederman and Loayza 2002: 1). Two of the three most expensive cities in the world (N'Djamena in Chad and Luanda in Angola) are now in poor developing countries (Mercer 2011; UN Habitat 2008). This indicates the apartheid-like construction of long-term 'dual economies', building enclaves of highly-paid foreigners alongside hundreds of thousands of desperate slum dwellers. Such outcomes are hardly consistent with the idea of aid 'cementing friendly relations' between peoples.

This waste and extreme inequality may help us understand the 'failure' of most bilateral aid. A number of systematic studies (usually involving more than a hundred countries) have demonstrated the failure of aid in its stated aims: whether these be economic growth or key human development indicators. Boone (1995) found that aid 'does not significantly increase investment or growth', regardless of the form of government. Similarly, aid did not help 'growth' in PNG (Feeny 2005). World Bank self evaluations in Africa found 'a 73% failure rate' (US Melzer Commission 2000). 'Donor' countries usually blamed the failures on corrupt local elites

(no doubt one part of the problem) and an influential study suggested aid should be made conditional on 'good governance' programs (Burnside and Dollar 1997), despite the resentment at earlier 'conditional' regimes (see Shah 2010). But another study contradicted the claim that 'the impact of aid depends on the quality of state institutions and policies', saying aid failed across all manner of 'recipient' regimes (Easterly, Levine, and Roodman 2003). Two IMF studies then looked at the impact of aid on infant mortality. Masud and Yontcheva (2005) found that bilateral aid did not reduce infant mortality (but NGO aid could), while 'only government education expenditures' reduced illiteracy. A subsequent study found that 'doubling health aid' could be linked to a 2% reduction in infant mortality (Mishra and Newhouse 2007); but this was miniscule compared to the targets set under the Millennium Development Goals.

Following huge corruption scandals which involved large aid agencies – in particular due to the World Bank's long term relations with corrupt dictatorships (e.g. Pilger 2003: 44) – anti-corruption programs began to enter aid portfolios (see Pincus and Winters 2002). Yet the truth is that large cashed up aid programs have always been a major source and fomenter of corruption, involving both local elites and the aid contractors. The World Bank's own internal assessment shows the body remains open to serious corruption (Edwards 2009; IEG 2009). Corruption is particularly likely for those aid programs linked to neoliberal ideologies which happily 'marry' private profiteering (e.g. by aid contractors) with public policy (e.g. poverty reduction). Such ideologies typically show poor recognition of conflicts of interest.

Aid failure is rarely admitted and aid programs are often poorly monitored and assessed, and rarely independently so. The outcomes of privately contracted projects are mostly held secret under 'commercial confidentiality' provisions, preventing scrutiny. Australia's aid agency AusAID, for example, has recently tried its hand at assessment, but without clear objectives assessment is hardly possible (McCawley 2010).

2. The character of aid problems

As indicated at the outset, the main problem with aid is not waste and corruption, but the fact that foreign aid programs are fundamentally corrosive of democracy and self-determination. No aid program is determined by the people it is supposed to assist – they are always externally directed. Aid regimes substitute cultures of charity and external dependence for those of justice, citizen's rights and democratic accountability. The original idea of aid, assisting a post-colonial transition regime or compensating for the colonial era (see Sarkin 2008; Howard-Hassmann and Lombardo 2011), has transformed into a semi-permanent, neo-colonial regime. This industry has its own logic and it is no accident that most aid programs have no 'exit strategy'.

Yet 'development' is a necessarily political process which must remain in local hands. So much is made clear by the first article of the International Bill of Rights:

> 'All peoples have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development' (UN 1966: 1.1).

This implies sovereign resource management and national control of such key policies as service delivery and institutional development. No country has developed strength and independence while crying 'poverty' and relying on charity. Great national achievements – including in resource-poor island states like Japan, Singapore and Cuba; in industrialisation, finance and

health and education, respectively – have come through confident, independent processes, including heavy domestic investments in education and training.

The ‘second order’ problems compound the undemocratic dilemma of aid. If aid were simply wasteful, or only delivering benefits to the ‘donor’ country companies and individuals, that might be considered curious but not necessarily the problem of the people of the ‘recipient’ country. However the actual damage done by aid programs makes these problems more severe. We could speak of these ‘second order’ problems in three groups: (i) obligation, debt and policy leverage; (ii) corruption and the aid elites; and (iii) more generally ‘aid trauma’.

Obligation and debt are used by aid ‘donors’ to leverage strategic and resource advantage, compromising the independence of local policy making. These days, military and strategic objectives now weigh heavily on aid budgets (Oxfam 2011). Where natural resources (particularly oil) are at stake, these interests always outweigh the contributions in aid. For example, tens of millions in Australian aid were used by Canberra as leverage in its struggle with Timor Leste over the billions of dollars at stake in the Greater Sunrise gas field (see Anderson 2003).

Examination of the cycles of corruption involving aid elites helps explain why aid programs are self-perpetuating, yet deliver little by way of ‘trickle down’ to ordinary people. The strategic and commercial interests of the ‘donors’ are sustained by corrupt local elites, and this relationship is aggravated by links to natural resource companies, for example those concerned with logging and plantations. Transparency International (a group often linked to local investors) notes some of the features of aid-associated corruption. The group observes the proliferation of ‘major contracting projects involving public officials and private companies’, alongside the distorting impact of aid on local investment and local salary structures (Transparency International 2007). The privatisation fostered by many aid agencies helps generate corruption in countries with weak regulatory capacity. After all, ‘private for profit’ activity, under neoliberal ideology, tends to be equated with public welfare.

‘Aid trauma’ is a concept developed (Anderson 2008) to help speak of several damaging features of ‘aid caravans’ in developing countries. Some common features recur in the transition from welcomed emergency aid to resented developmental management; features which seem to be more apparent to the locals than the foreigners. Relatively small groups of highly paid foreigners can inflict social and economic damage through the creation of an inflationary ‘enclave bubble economy’, through failures in human and institutional capacity building and through ‘relative deprivation’. Put together, I call this ‘aid trauma’, an injury which worsens as time goes on.

In these enclave ‘bubble economies’ the benefits are not spread widely (due to weak local ‘linkages’) yet the wider population is hit by inflationary pressures. For example, goodwill towards the RAMSI mission in the Solomon Islands was said to have ‘evaporated’ rapidly because the economic benefits from RAMSI remained in Honiara, and were ‘concentrated in a few large businesses’ (Roughan, Greener-Barcham and Barcham 2006: 2). Housing inflation in Honiara meant that whole areas of the capital were dominated by foreigners, on different wage rates to the locals (Anderson 2008). Such segregation also occurs through the many local businesses which are set up to cater to a rich and mostly foreign elite. Local people are excluded from this sort of ‘development’.

Segregated cultural relations pass on to problems in training and institution building. Justifying their privileged position, the foreigners are reluctant to pass on skills to locals and exaggerate the importance of their own role. Locals miss out on jobs held by foreign aid workers (e.g. Smith 2008). Referring back to the first order problem, former Solomon Islands Prime Minister Manasseh Sogavare said RAMSI 'with no exit strategy' would create an aid dependency that 'has the effect of numbing [the capacity of] political brains to think independently' (National Express 2008: 5). Real 'capacity building', in the sense of large scale training, does not work when perpetuation of an industry is the dominant concern. With the failure of large scale training, aid regimes often focus on cultivating local elites, through such programs as 'leadership training'.

'Relative deprivation' is a way of speaking of an inequality that is unacceptable to local populations, such that they rebel in a number of ways. Criminologists say that perceived 'illegitimate' inequality, combined with labour market instability, generates crime and social insecurity (Vanneman and Pettigrew 1972; Braithwaite 1979; Blau and Blau 1982). The longer a highly paid, elite enclave persists, the more likely the resentment at this 'relative deprivation' is likely to build, along with the costs of crime and instability. It is no accident that countries (e.g. South Africa, Colombia) and cities with high, long-term inequality have the highest crime rates (Carroll and Jackson 1983; Fajnzlber, Lederman and Loayza 2002).

Put together, the obligation and debt, failures in capacity building and 'relative deprivation', generated by wealthy foreign enclaves, inflict damage on local peoples and their processes of development. One result of this 'aid trauma', and the constraints it imposes on socio-economic development, is that highly skilled professionals emigrate and are lost to the country. They do not feel there are opportunities for them in their own country. This 'brain drain' has been well documented in many countries (e.g. Schiff 2005), although the World Bank tends to argue that the loss of developing country professionals is offset by remittances (World Bank 2011b). Nevertheless, in the Pacific, one study found that there were 'almost as many' Fijian born doctors in Australia and New Zealand as in Fiji; while Australia and New Zealand also had more nurses and midwives from Samoa, Tonga, Fiji and Niue than were working in those island states (Negin 2008). This must undermine local health systems.

3. How might a sovereign people respond?

The track record of aid in recent decades is a bleak one, despite all the stated good intentions. It compounds as a diplomatic problem because, for a sovereign people, is hard to say 'yes' to aid and hard to say 'no'. Saying 'yes' implies potential surrender of national will in certain sectors, the inviting of enclaved 'bubble economies', problems of coordination and the potential undermining of local capacity building. Saying 'no' to aid can be seen as an unfriendly act and might block possible links of goodwill. It is a difficult problem. We cannot deny the possibility that cooperation between peoples might bring benefits. Yet the systemic problems cannot be ignored.

In these circumstances it might be useful to consider sovereign control and regulation of aid, aiming to prevent the most damaging forms and, at the same time, identifying the key features of programs that are acceptable.

Sovereign regulation could require registration of potential aid programs to ensure that, in the first instance, they do not: (i) contribute to inflationary bubble economies, by establishing a semi-permanent, highly paid presence; (ii) fail to assist in developing human resources; (iii) introduce and justify cultures of great inequality; (iv) generate corrupt relationships; (v) undermine the construction of national institutions; (vi) undermine indigenous land tenure systems; (vii) displace local technologies and economies; and (viii) fail to respect local sovereignty and control.

On the other side of the ledger, regulation could ensure that aid programs (i) are consistent with national priorities; (ii) support rather than undermine national institutions; (iii) include genuine capacity building elements; (iv) have an 'exit strategy' for each project. More generally, there could be consideration of (a) prohibitions on discrimination in salaries (national v. non-national) and caps on salaries and fees; (b) a 'preferred national' policy on employment; and (c) limited term contracts for foreign workers, with 'show cause' provision for extensions.

There is a strong case against bilateral 'development' aid, as in most respects it is a neo-colonial weapon, facilitating foreign leverage, entrenching undemocratic systems and disempowering whole populations. The severe problems of obligation, debt and policy leverage; corruption and 'aid trauma' cannot be ignored. Nevertheless, as an important element in friendly international relations, aid must also be managed as a component of broader foreign policy. It may be better for a sovereign people to engage with aid in a positive yet disciplined manner. This could involve clear regulation which identifies and prohibits the most harmful forms of aid, and requires otherwise eligible programs to meet key nationally-determined criteria.

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